

partly behavioristic. The result is a lagging adjustment to change. Fiscal and monetary restraints, imperfect though they be, play their role.

The result has on balance in most advanced countries turned out to be a moderate inflation without serious disruption of a reasonably balanced income distribution. The continued maintenance of a balanced income distribution may be even more important, possibly, than price stability itself. Instead of our term "wage-price guidelines" Western European countries use the phrase "income policy." This term seems to stress the concept of a balanced income distribution and puts less emphasis on price stability per se. An "income policy" seems to say that the question is not so much the relation of money wages to productivity changes, but rather the question of real wages to productivity increases.

Without taking a dogmatic position, I raise the question whether an escalator clause in labor contracts might not contribute to a more stable development of income distribution, especially the relation of wages to profits. If money wages and prices get out of line, profits and wages are certain to get out of balance. Would not an escalator clause help to keep wages and prices in line with each other and so contribute to a balanced income distribution?

Wage bargains influenced by apprehensions about possible excessive future consumer price increases are likely to lead to results similar to that we experienced during the past year in the case of the abortive contract—the one turned down by the union membership—between the airlines and the machinists' union. Aware of the upward trend in consumer prices, the union demanded a cost-of-living escalator clause. The airlines stood firm against this. The agreement broke down. In the new contract that was finally accepted the union demanded, and was granted, not only wage increases to offset future price increases but in addition an escalator clause as well. Had the escalator clause been accepted by the management in the first place, the outcome might have been very different.

Be it noted that an escalator by itself alone tends to restore the balance which has been thrown out of line by the excessive price. The escalator corrects the imbalance. It does not correct a new imbalance.

A further imbalancing price rise may, of course, emerge either from market or administrative price forces, but the fault does not lie in the escalator.

No wage bargaining, whether or not based on guidelines however defined, can hope to command confidence in a world of uncertain price stability, unless there is some assurance that the nominal money-wage increases will have meaning in real terms.

In the 1960-65 period, for example, a wage contract based on the 3.2 guidelines was in fact eroded by the price rise to a 2.0 increase in real wages.

An escalator clause limits the buildup of explosives discrepancies in the relation of wages to profits. It tends to keep real wage movements in line with productivity changes. It acts automatically as a safety valve. It prevents the erosion of the real wages contracted for at the bargaining table. It prevents long-term contracts from getting out of date, and surely successful long-term contracts can have a stabilizing effect upon the economy.